

CIA/OER/S-06807-75 HONG KONG & GSP
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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

S-6807

CIA/OER/S-6807-75

4 March 1975

MEMORANDUM FOR: Dr. Gus Weiss
Senior Staff Member,
Council for International
Economic Policy

SUBJECT : Hong Kong and GSP

[REDACTED]

In response to your request we are forwarding the attached information on Hong Kong and the Generalized System of Preferences for LDC's. Our analysis indicates that the colony would not be seriously hurt if excluded from the US plan since a relatively small share of Hong Kong's exports would be eligible in any case. Based on data provided by Hong Kong, roughly 10% of exports to the US market would be covered by the GSP. If there is any further information you may require on this or related matters, we will be happy to oblige.

[REDACTED]

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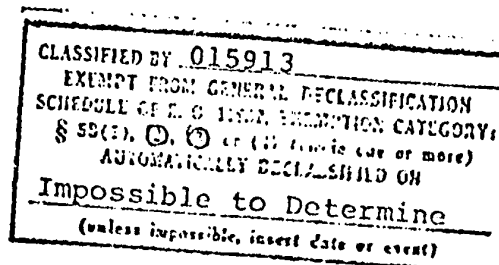
Chief, Japan/Pacific Branch
Industrial Nations Division
Office of Economic Research

Attachment:
As stated

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HONG KONG AND THE GSP

PER CAPITA GNP

1. Hong Kong's per capita GNP in 1974 was an estimated \$1,600. This substantially exceeds per capita GNP in other nearby East Asian countries. In South Korea and Taiwan, per capita GNP last year was \$500 and \$700 respectively. Hong Kong's per capita GNP exceeds that of any country scheduled to receive preferential treatment in the US market except that of Argentina and Singapore.

EXPORT TRENDS

2. Global exports last year totaled \$6.5 billion (including re-exports), up from \$5.5 billion in 1973. Domestic exports are running about \$5 billion annually, consisting almost entirely of manufactured products. In 1973 overseas sales of these items equaled roughly one-fifth of total LDC exports of manufactured goods. The only LDC's even approaching Hong Kong's share are Taiwan and South Korea.

3. Hong Kong's overseas sales are concentrated in a relatively few countries.

- o The United States takes one-third of total domestic exports.
- o The UK and West Germany come next, each taking about 10%.
- o The Japanese market takes somewhat more than 5%.

Exports are also concentrated in a few commodity lines. Textiles and clothing account for roughly 40% of exports. Other light

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of the balance.

4. The recent growth in Hong Kong's exports both globally and to the US market has been substantially lower than those of other East Asian countries. During 1970-73

- o Hong Kong's global exports rose 100%; sales to the US market rose 50%.
- o Taiwan's global exports rose 200%; sales to the US market rose 220%.
- o South Korean global exports rose nearly 300%; sales to the US market rose 160%.
- o Singapore's global exports rose 130% sales to the US market increased 200%.

Hong Kong's export growth continued to lag behind other East Asian countries last year, although the difference narrowed substantially. The colony boosted its sales to the UK market by 14% while Singapore and Taiwan registered gains of 20% and 18% respectively. Only South Korea continued to expand sales sharply, by 50%.

HONG KONG'S US EXPORTS

5. Exports to the United States totaled \$1.7 billion last year. Clothing, the largest single item, accounts for roughly 35% of total sales to the US market. Including yarns, fabrics, and made-up goods textiles account for about 40% of Hong Kong's US exports. Transistors account for nearly 15% of exports. Plastic products, such as toys, dolls and artificial flowers constitute another 15% of the total. Precision instruments such as optical equipment, although still a small share have been the fastest growing export item over the past several years, roughly

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doubling in value during the first nine months of 1974 compared with the same 1973 period.

6. Hong Kong's position in the US market, although slipping, remains fairly strong. During the first half of 1974 for example, the colony accounted for 20% of US clothing imports, only slightly below the 21% share held in 1970. Although the colony has lost ground to smaller East Asian suppliers it has more than held its own against Japanese suppliers. The Colony's share of US yarns, fabric and made-up textile imports has doubled since 1970, going from 4% of total imports to 8% last year. Hong Kong also accounted for about one-fifth of US imports of toys, games and sporting equipment. Last year, despite its small size, Hong Kong accounted for 3% of total US imports of manufactured products.

HONG KONG AND THE GSP

7. Hong Kong's international economic position would not be seriously hurt if the Colony is excluded from the proposed US Generalized System of Preferences for LDCs. According to data supplied by the colony, goods eligible for GSP account for only about 10% of total exports to the US market. The most important items are handbags, luggage, and wigs. Most items are of little significance, with sales to the US market generally running less than \$2 million annually. In terms of global exports, the items covered by the GSP account for only about 3% of Hong Kong's total overseas sales.

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8. Hong Kong should do fairly well in the US market whether or not it receives preferences. Although losing ground to other East Asian suppliers, the colony maintains a strong competitive edge over Japanese exports of light manufactures to the US market. Wages in Hong Kong average about \$.60 per hour compared with nearly \$2.00 in Japan. To meet competition from smaller East Asian countries the colony has continued to shift into product lines where price competition is less important. Hong Kong, for example, has become a significant supplier of telecommunications equipment to the US market.

9. Hong Kong has probably not benefited very greatly from preference systems adopted by other major nations, including the EC countries and Japan. In the case of the EC, several major countries have effectively limited Hong Kong's market penetration through a series of formal and informal contracts. In 1973, for example, exports to France totaled \$35 million while sales to Italy were over \$40 million. Exports to Japan, although increasing rapidly in recent years, amount to less than \$600 million annually, one-third the level of exports to the US market. Last year sales to Japan increased somewhat slower than exports to the United States.